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SUBJ: AUSTRALIA'S BAUXITE AND ALUMINA INDUSTRY: INVESTMENT
CLIMATE

REF: A. STATE 220706, B. CANBERRA A-41, C. CANBERRA A-76,
D. CANBERRA A-86

1. AUSTRALIAN ALUMINUM INDUSTRY CHARACTERIZED BY HIGH DEGREE OF FOREIGN OWNERSHIP AND VERTICAL INTEGRATION AT ALL STAGES OF PRODUCTION FROM BAUXITE MINING TO FABRICATION. ALUMINA REFINING AND ALUMINUM SMELTING INDUSTRY WAS INITIALLY DEVELOPED WITH AID OF GOVERNMENT FUNDS, BUT BULK OF RECENT DEVELOPMENTS HAS BEEN FINANCED MAINLY BY PRIVATE FOREIGN CAPITAL. GOVERNMENT ASSISTANCE TO INDUSTRY CONTINUES TO TAKE THE FORM OF PROTECTIVE TARIFFS ON ALUMINUM IMPORTS AND TAX CONCESSIONS.

2. INVESTMENT CLIMATE: IN APRIL 1976, GOA ISSUED ITS FOREIGN INVESTMENT GUIDELINES (REF B). WITH EXEPTION OF URANIUM, GOA SPECIFIED THAT AMINIMUM OF 50 PERCENT AUSTRALIAN EQUITY WAS REQUIRED BEFORE AMINERAL PROJECT COULD BEGIN DEVELOPMENT. IF POTENTIAL FOREIGN INVESTOR HAS MADE CONCERTED EFFORTS AND
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FAILED TO OBTAIN AUSTRALIAN EQUITY PARTNERS, PROJECT MAY BE

GIVEN PERMISSION TO PROCEED WITH STIPULATION THAT CONTINUED EFFORTS BE MADE TO OBTAIN 50 PERCENT EQUITY WITHIN AN AGREED PERIOD.

3. GOA FY77 BUDGET PROVIDED INCENTIVES TO MINING INDUSTRY IN FORM F ACCELERATED DEPRECIATION PROVISIONS AND INTRODUCTION OF NEW TYPES OF DEPRECIATION (REF D). PROPOSED TAX CHANGES HAVE BEEN WELL RECEIVED BY MINING AND BUSINESS COMMUNITY. IN SPITE OF OPTIMISM, SERIOUS AUSTRALIAN PROBLEMS ARE: HIGH RATE OF DOMESTIC INFLATION; HIGH COSTS AND SPIRALING WAGE DEMANDS. THERE IS BUSINESS UNCERTAINTY DESPITE GOA FIRM ASSURANCES OVER THE FUTURE EXCHANGE RATES OF THE AUSTRALIAN DOLLAR. MINERAL INDUSTRY FAVORS DEVALUATION TO ASSIST IN OFFSETTING HIGH COST WHICH ARE DISCOURAGING FOREIGN INVESTORS. BASICALLY, FUTURE OF AUSTRALIAN MINERAL INDUSTRIES WILL DEPEND ON COST, PRICE AND WORLD MARKET DEVELOPMENTS.

4. GOA REGULATORY ACTIVITIES: GOA HAS PROTECTED DOMESTIC ALUMINUM INDUSTRY WITH HIGH TARIFF WALL. EFFECTIVE JAN. 1, 1977, FOLLOWING AD VALOREM TARIFF CHANGES WILL BECOME EFFECTIVE: RATE REDUCTION FROM 22.5 PERCENT TO 15 PERCENT FOR SEMI-FABRICATED ALUMINUM PRODUCTS, ALUMINUM POWDERS, FLAKE AND PASTE; UNWROUGHT ALUMINUM RATE REMAINS 6 PERCENT, RATE FOR ALUMINUM FOILS INCREASED FROM 19 PERCENT TO 20 PERCENT; AND RATE FOR MOST OTHER ALUMINUM PRODUCTS REDUCED FROM 26 PERCENT TO 20 PERCENT (REF C).

5. RECENT LABOR GOVERNMENT POLICY WAS TO ASSURE A WORLD PRICE FOR ALUMINA AND BAUXITE THROUGH EXPORT CONTROLS. EXPORT LICENSES WERE ISSUED FOR INDIVIDUAL SHIPMENTS ON BASIS GENERAL PRIOR APPROVAL OF TERMS OF CONTRACT. CURRENT GOA POLICY IS TO INTERVENE IN EXPORTING ACTIVITIES ONLY WHEN IT IS APPARENT INDUSTRY IS NOT RECEIVING A WORLD PRICE FOR BAUXITE AND ALUMINA.

6. GOA ACTION TO JOIN INTERNATIONAL BAUXITE ASSN (IBA), CAUSED CONCERN AMONG FOREIGN-OWNED ALUMINUM GROUPS AND GOVERNMENT ALIKE. BUT GOA HAS REFUSED TO COOPERATE IN PRICE FIXING ACTIVITIES WITH IBA AND INSTEAD ACTS AS MODERATING INFLUENCE. GOA ACTION WILL HOPEFULLY ASSURE THE CONTINUED LIMITED OFFICIAL USE

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SUPPLY OF BAUXITE WITHOUT THE FEAR OF LARGE INCREASES IN BAUXITE PRICES.

7. INDUSTRY REVIEW: IN TERMS OF EMPLOYMENT AND VALUE ADDED, ALUMINA AND ALUMINUM PROCESSING IS MOST IMPORTANT SECTOR OF NON-FERROUS PROCESSING INDUSTRY IN AUSTRALIA. OUTSIDE ASSESSMENT OF PROFITABILITY OF ALUMINA AND ALUMINUM PROCESSING INDUSTRY IS VIRTUALLY IMPOSSIBLE BECAUSE OF INSUFFICIENT PUBLIC

INFORMATION. HIGH DEGREE OF VERTICAL INTEGRATION WHICH CHARACTERIZES INDUSTRY RESULTS IN AN AGGREGATION OF INFORMATION ON OPERATIONS FROM WHICH DETAILS ON SPECIFIC STAGES OF PROCESSING CANNOT READILY BE EXTRACTED.

8. EXPANSION OF ANY SEGMENTS OF THE AUSTRALIAN ALUMINUM INDUSTRY HAS BEEN CURTAILED BY DECLINING WORLD MARKET AND SPIRALING INFLATION. INDUSTRY SPOKESMAN STATED THAT A WORLDWIDE SHORTAGE OF ALUMINA AND ALUMINUM WILL DEVELOP BEFORE INDUSTRY CONSIDERS EXPANSION. IN THE FACE OF FUTURE SHORTAGES, THERE IS CURRENTLY LITTLE INCENTIVE TO INCREASE PRODUCTION OF ALUMINUM AT CURRENT COSTS AND PRICES. INDUSTRY REPRESENTATIVE STATED, HOWEVER, AT CURRENT WORLD COSTS AND PRICES, IT IS NOW ECONOMICALLY FEASIBLE TO EXPAND EXISTING ALUMINA SMELTERS IN AUSTRALIA, BUT THERE IS NO URGENCY ON THE PART OF INDUSTRY TO DO SO. AUSTRALIAN INDUSTRY WILL REQUIRE THE DEVELOPMENT OF A LARGER PACIFIC MARKET TO WARRANT ANY EXPANSIONARY ACTIVITIES. THERE IS CURRENT SPECULATION THAT COMALCO (45 PERCENT OWNED BY KAISER) MAY CONSTRUCT A NEW ALUMINA SMELTER IN QUEENSLAND, BUT THIS RUMOR HAS APPEARED AND VANISHED BEFORE. THE COMALCO RUMOR IS TEMPERED BY THE FACT THAT BECAUSE OF THE HIGH COST OF NEW ALUMINA SMELTER CONSTRUCTION, EXPANSION OF EXISTING OPERATIONS SEEMS MORE LIKELY AS A FIRST STEP.

9. AUSTRALIA OFFERS: BEST SOURCE OF BAUXITE AT CURRENT WORLD PRICES; LOW INVESTMENT RISK; POLITICAL STABILITY; AND ADEQUATE BUT COSTLY LABOR SUPPLY. EXPANSION OF BAUXITE OR ALUMINA FACILITIES IN AUSTRALIA WILL OCCUR WHEN LARGER PACIFIC MARKET DEVELOPS. EXPANSION OF THE DOMESTIC ALUMINUM FABRICATING INDUSTRY IS NOT IMMINENT, BUT RATHER SOME 20 YEARS DISTANT SHOULD THE INDUSTRY EXPAND AT ALL.

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